THE NORTHERN TRUST COMPANY

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STEPHEN W. LIND
SENIOR VICE PRESIDENT

July 14, 1997

Mr. John P. Galligan,
Director,
Card Technology Division
Financial Management Service
U.S. Department of the Treasury
Room 526, Liberty Center
401 14th Street, S.W.
Washington, D.C. 20227

Dear Mr. Galligan:

RE: Notice of Proposed Rulemaking
Electronic Benefits Transfer;
Selection and Designation of
Financial Institutions as
Financial Agents
DEPARTMENT OF THE TREASURY
Fiscal Service
31 CFR Part 207
RIN 1510-AA59

The Northern Trust Company welcomes the opportunity to comment on the Department's proposal to adopt a new regulation, the Direct Federal Electronic Benefits Transfer (EBT), dealing with providing access to Federal program benefit payments through electronic funds transfer to individuals who do not have an account at a financial institution.

The Northern Trust Company (the Bank) is an Illinois chartered banking corporation located in Chicago, Illinois, operating 15 branches in Illinois with total assets of $22.5 billion as of June 30, 1997. The Bank is a wholly owned subsidiary of Northern Trust Corporation, a multi-bank holding company with additional banking subsidiaries located in Arizona, California, Florida and Texas. Northern Trust Corporation had average consolidated assets for the quarter ending June 30, 1997 of $26.1 billion. We appreciate the effort that went into the preparation of the proposal and offer the following suggestions and comments.

1). The fact that accounts may be opened without any investigation of the identification of the depositor seems to be at odds with the proposed Know Your Customer (KYC) regulations to be issued under the Bank Secrecy Act later this year, and Treasury's recommendation that KYC rules be established and followed in advance of regulatory requirements for new account holders not known to the financial institution.

207.035

2). There are risks associated with this service such as: a) fraud claims for transactions initiated at Automatic Teller Machines (ATMs) and Point of Sale (POS) terminals; b) lost or stolen cards or PINs; and c) off-line access potentially creating overdraft situations. Are the government agencies making the payments preparing to assume responsibility for fraudulent transactions initiated at ATMs? If so, what sort of procedure must a financial institution follow to recover a loss? Will merchants be willing or required to assume losses for fraudulent transactions initiated at POS terminals?

3). How will financial institutions be designated as "agents of the federal government" for participation in the EBT program? Will the institutions be invited to, or required to, participate? There will be a cost to the institution to participate in the program. Will there be any compensation for doing so for account maintenance and interchange fees incurred by the financial institution? Although Northern does not currently surcharge for ATM transactions, we might have to reconsider this position if the cost of providing this service can not be recovered from the agency making the payment or the benefit recipient. Financial institutions may be reluctant to participate due to the expense of maintaining these accounts particularly if there proves to be little opportunity to develop other profitable banking relationships.

4). Depositors currently can only withdraw funds via an ATM in whole dollar amounts, generally in increments of $5, $10 and $20 depending upon the location. Also most ATMs have daily withdrawal limits ranging from $100-$500. Will such withdrawal limits be a deterrent to serving this group of benefit recipients? How will this be handled if benefit payments are made in amounts not evenly divisible. Current ATM technology and security considerations place some limit on the ability to service non-standard withdrawal amounts which might be requested by benefit recipients, i.e., withdrawal of entire monthly benefit. The expense of retrofitting and reprogramming would be considerable.

We support the concept of converting government benefit payments to direct deposit over a period of time. But, we do not believe that financial institutions should be required to assume additional risks of loss in the process of achieving the goal of converting these payments to an electronic mode.

We thank the Department for the opportunity to comment on this proposal.

Sincerely,

Stephen W. Lind

Stephen W. Lind
Senior Vice President